Supreme Court, U.S.
FILED
APR 9 1999
CLERK

No. 98-149

In The

Supreme Court of the United States

October Term 1998

COLLEGE SAVINGS BANK,
Petitioner,

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Third Circuit

REPLY BRIEF FOR PETITIONER

ARNOLD B. CALMANN
SAIBER SCHLESINGER SATZ & GOLDSTEIN, LLC
One Gateway Center
Newark, New Jersey 07102-5311
(973) 622-3333

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037
(202) 457-6000

Attorneys for Petitioner

TABLE OF CONTENTS

INTRODUCTION 1

ARGUMENT 2

I. THIS COURT CONSISTENTLY HAS RECOGNIZED THE BROAD SCOPE OF CONGRESSIONAL POWER UNDER § 5 OF THE FOURTEENTH AMENDMENT. 2

II. THE TRCA, EXTENDING TO THE STATES THE LANHAM ACT'S PROTECTION OF PROPERTY RIGHTS, IS A VALID EXERCISE OF CONGRESS' FOURTEENTH AMENDMENT POWER. 6

III. THE POSSIBLE AVAILABILITY OF RELIEF IN STATE COURTS DOES NOT SERVE TO INVALIDATE THE TRCA. 12

IV. FLORIDA PREPAID'S INVITATION TO OVERRULE THE *PARDEN* DOCTRINE SHOULD BE DECLINED. 16

CONCLUSION 20

TABLE OF AUTHORITIES

FEDERAL CASES

Alexander v. Gardener-Denver Co., 415 U.S. 36 (1974) 14

City of Boerne v. Flores, 521 U.S. 507 (1997) ..... *Passim*

Daniels v. Williams, 474 U.S. 327 (1986) 10

Eastern Enterprises v. Apfel, 118 S. Ct. 2131 (1998) 15

Employees of the Dep't of Public Health & Welfare v. Dep't of Public Health & Welfare, 411 U.S. 279 (1973) 20

Employment Division, Dep't of Human Resources v. Smith, 494 U.S. 872 (1990) 4

Estelle v. Gamble, 429 U.S. 97 (1976) 11

Fitzpatrick v Bitzer, 427 U.S. 445 (1976) 2, 3

Garcia v. San Antonio Metropolitan Transit Auth., 469 U.S. 528 (1985) 18

Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916) 5, 10

Hegeman Farms Corp. v. Baldwin, 293 U.S. 163 (1934) 12

Hudson v. Palmer, 468 U.S. 517 (1984) 16

International News Service v. Associated Press, 248 U.S. 215 (1918) 10, 13

Kaiser Aetna v. United States, 444 U.S. 164 (1979) 8

Katzenbach v. Morgan, 384 U.S. 641 (1966) 3, 16

Logan v. Zimmerman Brush Co., 455 U.S. 422 (1982) 8

Lopez v. Monterey County, 119 S. Ct. 693 (1999) 3

Lynch v. Household Finance Corp., 405 U.S. 538 (1972) 7

Monroe v. Pape, 365 U.S. 167 (1961), *overruled on other grounds, Monell v. New York City Dep't of Social Services*, 436 U.S. 658 (1978) 13, 14

Mullane v. Central Hanover Tr. Co., 339 U.S. 306 (1950) 8

National League of Cities v. Usery, 426 U.S. 833 (1976) 18

Parden v. Terminal Ry. Of Ala. State Docks Dept, 377 U.S. 194 (1964) ..... *Passim*

Parratt v. Taylor, 451 U.S. 527 (1981), *overruled in part on other grounds by Daniels v. Williams*, 474 U.S. 327 (1984) 16

Ruckelshaus v. Monsanto Co., 467 U.S. 986 (1984) 8

Seminole Tribe of Fla. v. Florida, 517 U.S. 44 (1996) ..... *Passim*

Seminole Tribe of Fla. v. State of Florida, 11 F.3d 1017 (11th Cir. 1994), *affd*, 517 U.S. 44 (1996) 12

State of Florida v. Real Juices, Inc., 330 F. Supp. 428 (M.D. Fla. 1971) 13

Truax v. Corrigan, 257 U.S. 312 (1921) 8

United Drug Co. v. Rectanus, 284 U.S. 90 (1918) 5, 10

University of Florida v. KPB, Inc., 89 F.3d 773 (11th Cir. 1996) 13

Ex parte Virginia, 100 U.S. 339 (1879) 3, 16

Welch v. Texas Dep't of Highways & Public Transp., 483 U.S. 468 (1987) 19

Zinermon v. Burch, 494 U.S. 113 (1990) 14

STATE CASES

County of Brevard v. Miorelli Engineering, Inc., 677 So. 2d 32 (1996) 14

FEDERAL STATUTES

I.R.C. § 115 (1986) 20

Small Business Job Protection Act of 1996, Pub. L. No. 104-188, 110 Stat. 1755 (1996) 20

The Religious Freedom Restoration Act of 1993, 42 U.S.C. § 2000bb *et seq*, ... 4

Trademark Remedy Clarification Act, Pub. L. No. 102-542, 106 Stat. 3567 (1992) 4

STATE STATUTES

Fla. Stat. § 768.28(5) 14

LEGISLATIVE MATERIALS

S. Rep. No. 102-286, at 6 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3092 14

S. Rep. No. 1333 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275 10

MISCELLANEOUS

James W. Ely, Jr., *The Guardian Of Every Other Right, A Constitutional History of Property Rights* 29 (2d ed. 1998) 1

The Federalist No. 10, (James Madison (Isaac Kramnick ed., 1987) 1

INTRODUCTION

Our Declaration of Independence proclaims that we are endowed with unalienable rights, including "Life, Liberty and the pursuit of happiness." Under Thomas Jefferson's formulation, economic opportunity and "[t]he right to obtain and possess property was at the heart of the pursuit of happiness." James W. Ely, Jr., *The Guardian Of Every Other Right, A Constitutional History of Property Rights* 29 (2d ed. 1998). Further, Thomas Jefferson's formulation was "significant because it stressed the importance of acquiring property rather than just the protection of existing property arrangements." *Id.*

Property rights were also a central concern to the framers of the Constitution. *See* The Federalist No. 10 (James Madison) (Isaac Kramnick ed., 1987) ("The diversity in the faculties of men, from which the rights of property originate, is not less an insuperable obstacle to a uniformity of interests. The protection of these faculties is the first object of government.") This case tests whether Congress can require the States to be responsible for damages caused by the deprivation of property rights.

In its brief, Respondent Florida Prepaid Postsecondary Education Expense Board ("Florida Prepaid") concurs in the finding of the court of appeals that a business is a property interest protected by the Fourteenth Amendment, a finding compelled by the decisions of this Court. The proposition that a business is a property right, however, is shorn of much of its significance if that business is unable to protect itself against false advertising and other unfair competition.

Florida Prepaid simply ignores the decisions of this Court that give a broad reading to the scope of property rights protected by the Fourteenth Amendment. Those decisions have found, virtually without exception, that economic rights are property rights entitled to Fourteenth Amendment protection. In addition, Congress, in enacting the Lanham Act, specifically

relied upon decisions of this Court explicitly holding that unfair competition serves to damage property interests.

The congressional abrogation in this case, serving merely to make the States answerable for damages caused by unfair competition, does not intrude upon the regulatory authority of the States. The Lanham Act merely provides a means of redress for damages caused to a business by conduct long-recognized as unlawful. As a legal and practical matter, the States face no danger of being sued for violations of the Lanham Act when engaged in normal governmental functions, but only when they enter into commerce, as proprietors, in competition with the private sector.

The congressional conclusion that the States should be held to the same standard of honest dealing to which the private sector is bound is certainly not an extreme application of the Fourteenth Amendment's protections. There are no policy considerations that should serve to insulate Florida Prepaid from the consequences of its deliberate entry into interstate commerce in competition with the private sector. Upholding the validity of the congressional action in this case has no significant implications for federalism and would not affect the appropriate balance between federal and state power.

ARGUMENT

I. THIS COURT CONSISTENTLY HAS RECOGNIZED THE BROAD SCOPE OF CONGRESSIONAL POWER UNDER § 5 OF THE FOURTEENTH AMENDMENT.

Florida Prepaid characterizes *Fitzpatrick v Bitzer*, 427 U.S. 445 (1976), as the case in which "this Court first announced the doctrine that Congress may abrogate Eleventh Amendment immunity pursuant to the Fourteenth Amendment. . . ." Brief at 11. *Fitzpatrick*, however, is far from the first decision by this

Court construing the breadth of Congress' powers under the Fourteenth Amendment. *Fitzpatrick*, and other decisions by this Court, establish that Florida Prepaid fundamentally misconstrues Congress' § 5 powers.

Florida Prepaid argues that Congress has no "authority to craft its own applications of the Due Process Clause. . . ." Brief at 14. That is a misformulation. What Congress cannot do is "to decree the substance of the Fourteenth Amendment's restrictions on the States." *City of Boerne v. Flores*, 521 U.S. 507, 519 (1997). Thus, this Court found unconstitutional a congressional enactment which altered "the meaning of the Free Exercise Clause. . . ." *Id.* at 519.

Congress, however, clearly does have authority to "craft its own applications" of the Fourteenth Amendment, as this Court has held in numerous cases. *See, e.g., City of Boerne*, 521 U.S. at 535-36 ("When Congress acts within its sphere of power and responsibilities, it has not just the right but the duty to make its own informed judgement on the meaning and force of the Constitution. . . . Our national experience teaches that the Constitution is preserved best when each part of the Government respects both the Constitution and the proper actions and determinations of the other branches."); *Fitzpatrick*, 427 U.S. at 455 ("There can be no doubt that this line of cases has sanctioned intrusions by Congress . . . into the judicial, executive, and legislative spheres of autonomy previously reserved to the States."); *Katzenbach v. Morgan*, 384 U.S. 641, 651 (1966) ("Correctly viewed, § 5 is a positive grant of legislative power authorizing Congress to exercise its discretion in determining whether and what legislation is needed to secure the guarantees of the Fourteenth Amendment."); and *Ex parte Virginia*, 100 U.S. 339, 345-46 (1879) ("Whatever legislation is appropriate, that is, adapted to carry out the objects the amendments have in view . . . is brought within the domain of congressional power."). *See also Lopez v. Monterey County*, 119 S. Ct. 693, 703 (1999).

The Religious Freedom Restoration Act of 1993 ("RFRA"), 42 U.S.C. § 2000bb *et seq.* was found to be unconstitutional because it sought to overturn this Court's decision in *Employment Div., Dep't of Human Resources v. Smith*, 494 U.S. 872 (1990), holding that the right to the free exercise of religion did not include "a constitutional right to ignore neutral laws of general applicability." *City of Boerne*, 521 U.S. at 513. RFRA served to alter the meaning of the Constitution, and therefore, could not be deemed to be an Act enforcing the Constitution. *Id.* at 519.

The finding that Congress had sought to change this Court's construction of the substantive requirements of the Constitution, in and of itself, should have been sufficient to invalidate RFRA. Significantly, however, this Court also provided a detailed analysis of why the Act was not an appropriate exercise of Congress' preventive or remedial powers under § 5. The Court's discussion highlights the extent to which the modest remedial action represented by the Trademark Remedy Clarification Act, Pub L. No. 102-542, 106 Stat. 3567 (1992) ("TRCA"), bears no relationship to RFRA.

This Court found that RFRA "pervasively prohibits constitutional state action in an effort to remedy or to prevent unconstitutional state action. . . ." *Id.* at 533. The Court concluded that: "Remedial legislation under § 5 'should be adapted to the mischief and wrong which the [Fourteenth] [A]mendment was intended to provide against.'" (citation omitted). *Id.* at 532. Instead, RFRA served to intrude "at every level of government, displacing laws and prohibiting official actions of almost every description and regardless of subject matter." *Id.* at 532.

The TRCA neither prohibits laws nor displaces any type of state law nor prohibits official actions "of almost every description." The reach of the TRCA is exceedingly narrow. It merely allows the States to be held responsible in federal courts for violations of the Lanham Act, providing remedies for

competing businesses for legal wrongs long-recognized in common law.[1] *See* College Savings Bank ("CSB"), Opening Brief at 17-18. The States will encounter a possible exposure to Lanham Act actions, from this limited class of competing businesses, only when they enter into the commercial marketplace. Making the States responsible for false advertising and other forms of unfair competition proscribed by the Lanham Act would not impose a "heavy litigation burden."

Florida Prepaid misstates the issue before the Court by arguing that the "real question is whether every state action that affects a business negatively can be considered a potential deprivation of property . . . within the meaning of the Constitution." Brief at 14. Clearly, within the exercise of a state's regulatory power, actions can be taken that "affects a business negatively" that do not implicate the Constitution. False representations about goods and services offered in commerce, however, have nothing to do with the States' regulatory authority.

Making the States liable for violations of the Lanham Act constitutes no "intrusion into the States' traditional prerogatives and general authority to regulate for the health and welfare of their citizens." *City of Boerne*, 521 U.S. at 534. The Act in no way affects the "general regulatory power" of the States, nor does it prohibit "constitutional state action." *Id.* at 533. Instead, it reflects "proportionality [and] congruence between the means adopted and the legitimate end to be achieved." *Id.* at 533.

---

[1] Florida Prepaid concedes that remedies for unfair competition grow out of the common law. Brief at 15. Thus, in enacting § 43(a) of the Lanham Act, Congress was simply providing a federal codification of the common law tort of unfair competition. *See e.g., United Drug Co. v. Rectanus Co.*, 248 U.S. 90 (1918), and *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916). Those cases recognized that unfair competition invades property rights long before the adoption of the Lanham Act.

II. THE TRCA, EXTENDING TO THE STATES THE LANHAM ACT'S PROTECTION OF PROPERTY RIGHTS, IS A VALID EXERCISE OF CONGRESS' FOURTEENTH AMENDMENT POWER.

The Lanham Act was enacted by Congress pursuant to its Article I commerce powers.[2] The TRCA, making the States liable for the Act, is a valid exercise of Congress' authority under the Fourteenth Amendment. *See* CSB Opening Brief at 25-31. Florida Prepaid's principal argument, that because the Lanham Act was enacted pursuant to Congress' Article I commerce power, it cannot be enforced against the States pursuant to the provisions of § 5 of the Fourteenth Amendment, is a misinterpretation of Congress' constitutional authority.[3] Brief at 7-17.

Florida Prepaid now concedes "that a business constitutes property. . . ." Brief at 14. Florida Prepaid then argues, however, that "[t]his Court has never held that the Due Process Clause of the Fourteenth Amendment protects the right to be

---

[2] More significantly, there has never been any question but that enactment of the Lanham Act was within Congress' commerce power, an important distinction from *City of Boerne*. In *City of Boerne*, the Court was not called upon directly to decide upon the constitutionality of abrogating the states' immunity under the Eleventh Amendment, but rather the constitutionality of the underlying statute, RFRA, and the validity of the Act's intrusion into regulatory areas within the control of the States.

[3] Florida Prepaid also continues to suggest that Congress' power under § 5 of the Fourteenth Amendment is to be determined in part by the nature of the § 1 right in issue. *See* Brief at 11. This Court has long since rejected that reading. *See, e.g., Lynch v. Household Finance Corp.*, 405 U.S. 538, 552 (1972) ("In fact a fundamental interdependence exists between the personal right to liberty and the personal right in property. Neither could have meaning without the other. That rights in property are basic civil rights has long been recognized.").

free in one's business from a competitor's false advertising if the alleged false advertising comes from a state actor." Brief at 14. That, of course, is the very issue before the Court in this case, *i.e.*, the constitutionality of the TRCA which, for the first time provides a remedy for false advertising by "a state actor." The significant fact is that this Court repeatedly has found that a wide variety of economic interests constitute "property" for the purposes of § 1 of the Fourteenth Amendment. Clearly, it is within Congress' § 5 powers to enact remedial legislation to enforce any property rights recognized under § 1.

Florida Prepaid simply chooses to ignore the decisions of this Court that have established a wide variety of economic rights as constituting property within the protection of the Fourteenth Amendment. *See* CSB Opening Brief at 18-21. *See e.g., Logan v. Zimmerman Brush Co.*, 455 U.S. 422, 431 (1982), citing to decisions by this Court finding a wide variety of interests to be constitutionally protected property, ranging from a horse trainer's license to welfare benefits. As found in *Logan*, "the types of interests protected as property are varied, and as often as not, intangible, relating to the whole domain of social and economic fact." (citations and internal quotation marks omitted). *Id.* at 430. *See also Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003 (1984) ("[A] trade-secret [is a] property right. . . ."); *Mullane v. Central Hanover Tr. Co.*, 339 U.S. 306, 313 (1950) (Finding that a cause of action embodies property interests protected by the Fourteenth Amendment); and *Truax v. Corrigan*, 257 U.S. 312, 354 (1921) (Brandeis, J., dissenting) ("This right to carry on business--be it called liberty or property--has value; and he who interferes with the right without cause renders himself liable.").

As shown by the cases relied upon by CSB, the concept of property protection under the Constitution is more extensive than merely protecting a "thing." The fact that in many circumstances the courts have had to resort to defining property as a "bundle of rights", demonstrates the breadth of the concept of property. *See e.g., Kaiser Aetna v. United States*, 444 U.S.

164, 176 (1979). Far from being an extreme "position" as charged by Florida Prepaid, CSB's position that the Lanham Act's false advertising provisions serve to protect Fourteenth Amendment property rights is within the mainstream of this Court's holdings.

Florida Prepaid attempts to dismiss CSB's reliance upon this Court's broad reading of the scope of economic rights protected by the Fourteenth Amendment by arguing that "simply labeling an interest as 'property' [does not confer] upon Congress the power to enforce such interests against the States. . . ." Brief at 17. It is this Court, however, that has found a wide variety of economic interests to be "property." Those findings are not properly characterized as "labeling." Rather, they constitute this Court's construction of the scope of the property rights protected by the Fourteenth Amendment.

Similarly, Florida Prepaid continues to attempt to bifurcate property rights into those which are subject to Congress' remedial powers and those which are not. *See, e.g.*, Brief at 17 ("This case simply does not involve property that Congress may protect under the Fourteenth Amendment."). That position mirrors the court of appeals' formulation. Both the court of appeals and Florida Prepaid shrink from simply stating that CSB's right to be free from unfair competition is not a "property right", presumably in recognition of the broad scope of property rights established by this Court's decisions. There is no basis, however, for contending that Congress cannot exercise its § 5 remedial powers to protect *all* "property rights."

Florida Prepaid claims that "[t]here is no historical tradition linking the Lanham Act and the Fourteenth Amendment." Brief at 10. The Lanham Act was enacted under Congress' commerce power and there was no reason for Congress to rely upon any other constitutional power. Thus, referencing a lack of "historical tradition" between the Lanham Act and the Fourteenth Amendment is a meaningless observation. There is,

however, a "historical tradition" linking the Lanham Act and the very type of property interests asserted by CSB.

The Senate Report accompanying the Lanham Act explicitly relied upon this Court's decisions in *United Drug Co. v. Rectanus*, 284 U.S. 90 (1918), and *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916). *See* S. Rep. No. 1333 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275. In *Hanover Milling Co.*, this Court found that "the common law of trademarks is but a part of the broader law of unfair competition." *Id.* at 413. Further, the Court explicitly held that "a man's right to the continued enjoyment of his trade reputation and the good-will that flows from it, free from unwarranted interference by others, is a property right. . . ." *Id.* at 413. Obviously, one type of "unwarranted interference by others" is the false advertising made actionable by § 43(a) of the Lanham Act. Thus, from its inception, there has been a "historical tradition" that the Lanham Act's protection against unfair competition is a property right.

Florida Prepaid also seeks to dismiss the significance of this Court's holding in *International News Service v. Associated Press*, 248 U.S. 215 (1918). It does so in part by failing to provide the full text of the Court's holding. Brief at 13 n.2. Specifically, immediately following the language quoted by Florida Prepaid, the Court states: "the right to acquire property by honest labor or the conduct of a lawful business is as much entitled to protection as the right to guard property already acquired." *Id.* at 236.

Similarly, the arguments and the case law relied upon by the United States to support its position that Florida Prepaid's misrepresentation of its own goods and services does not rise to the level of protectable property do not support its position. U.S. Brief at 30-33. In *Daniels v. Williams*, 474 U.S. 327, 328 (1986) this Court concluded that "the Due Process Clause is simply not implicated by a *negligent* act of an official causing unintended loss of or injury to life, liberty, or property."

(emphasis by the Court). Florida Prepaid, however, did not engage in false advertising through negligence. Rather, it deliberately chose the methods and materials used to promote its product.[4] Even more obviously, *Estelle v. Gamble*, 429 U.S. 97 (1976), holding that medical malpractice does not constitute cruel and unusual punishment in violation of the Eighth Amendment, has no application to this case.

The United States is also wrong in its conclusion that, "Florida Prepaid's alleged misrepresentations concerning its own products effected no intrusion on any tangible or intangible interests over which CSB possesses exclusive dominion." U.S. Brief at 32. To the contrary, CSB does possess "exclusive dominion" over its business. Florida Prepaid's misrepresentation of the nature of its products and services inevitably serves to effect an intrusion upon that business. The United States correctly notes that one type of intangible property right is "the right to be free from specified conduct by others." U.S. Brief at 31. That definition of a recognized intangible property right precisely fits the right to be free from the economic injury caused by false advertising, the property right asserted by CSB in this case.

Florida Prepaid argues that to uphold the congressional authority to enact the TRCA would be to adopt a theory of the Fourteenth Amendment that would have compelled a different result in *Seminole Tribe of Fla. v. Florida*, 517 U.S. 44 (1996). Brief at 15 n.3. The argument is a red herring. The Indian Gaming Regulatory Act invalidated in *Seminole Tribe* bears no relationship to the statute here in issue. The Act was directed solely at the states and attempted to force them to engage in negotiating agreements with the Tribes. Florida had been purely passive and had not through legislative, executive, judicial or any other means infringed upon any property interests of the

[4] Indeed, Florida Prepaid continues to deny that any of the representations addressed by the CSB complaint are false. *See* J. App. 25-39, e.g. ¶14, J. App. 29 ("Defendant ...denies that its marketing materials contain any false or misleading statements.")

Seminole Tribe. As found by the Eleventh Circuit, the Act merely "establishes the process and standards by which gambling may be conducted on Indian lands," and thus, "creates no liberty or property interests and cannot implicate the Fourteenth Amendment." *Seminole Tribe of Fla. v. State of Florida*, 11 F.3d 1017, 1025 (11th Cir. 1994), *aff'd*, 517 U.S. 44 (1996). Unlike the passive role of the State in *Seminole Tribe*, here Florida Prepaid has taken action that directly harms CSB's liberty and property interests In sum, the congressional enactment held to be unconstitutional in *Seminole Tribe* bears no relationship to the TRCA, by which Congress sought to ensure that the States be held accountable for economic harm to a business caused by violations of § 43(a) of the Lanham Act.

Florida Prepaid attempts to insulate itself from the TRCA by making the remarkable argument that "unfair competition is merely a form of competition. It is part of the rough and tumble of the economic world that all competitors expect to encounter occasionally. . . ." Brief at 15. This statement is made by Florida Prepaid in the context of defending the court of appeals' erroneous reliance upon *Hegeman Farms Corp. v. Baldwin*, 293 U.S. 163, 170 (1934) ("The Fourteenth Amendment does not protect a business against the hazards of competition."). Florida Prepaid's conclusion represents a tortured reading of *Hegeman Farms* in which the Court concluded that it was "unable to infer from [plaintiff's] fragmentary data, that there has been anything perverse or arbitrary in the action of the Board." *Id.* at 170.

The economic system of this country is premised upon the "rough and tumble" of competitive free enterprise, but we have also recognized that certain rules of fair play must be imposed to avoid a serious distortion of the system. Protecting against unfair competition is one of the most important of those rules. *See* Restatement (Third) of Unfair Competition § 1g (1995) ("A primary purpose of the law of unfair competition is the identification and redress of business practices that hinder rather than promote the efficient operation of the market.").

See also International News Service, 248 U.S. at 235-36 ("[E]ach party is under a duty so to conduct its own business as not unnecessarily or unfairly to injure that of the other.") (citation omitted). In sum, *Hegeman Farms* certainly does not stand for the proposition that a "state actor," such as Florida Prepaid, is free to engage in false and deceptive statements as "merely a form of competition."

III. THE POSSIBLE AVAILABILITY OF RELIEF IN STATE COURTS DOES NOT SERVE TO INVALIDATE THE TRCA.

Florida Prepaid contends that the TRCA is unconstitutional because relief for violations of the Lanham Act, including unfair competition, might be available in state courts. Brief at 18-22. Florida Prepaid contends that the TRCA is therefore "addressing a nonexistent constitutional harm." *Id.* at 22. Florida Prepaid's premise is wrong. The decisions of this Court, upon which it relies, do not support its position. Further, the availability of relief by bringing action in state courts is dubious, at best.[5]

The principle that the possible existence of a state remedy cannot serve to invalidate a federal remedy is well established. In *Monroe v. Pape*, 365 U.S. 167, 172 (1961), *overruled on other grounds*, *Monell v. New York City Dep't of Social Services*, 436 U.S. 658 (1978), this Court rejected the contention that a federal remedy could not be invoked based upon the contention that "the courts of Illinois are available to

[5] Florida Prepaid claims that its Lanham Act case could have been brought in the state courts of Florida. Brief at 20, 21. Lanham Act cases, however, are virtually never brought in state courts and it is a wholly undeveloped jurisprudence. The inadequacy of using the state courts is well demonstrated by the fact that the State of Florida has itself brought Lanham Act actions in federal court. *See Univ. of Florida v. KPB, Inc.*, 89 F.3d 773 (11th Cir. 1996); and *State of Florida v. Real Juices, Inc.*, 330 F. Supp. 428 (M.D. Fla. 1971).

give petitioners that full redress which the common law affords. . . ." As concluded by the Court:

> It is no answer that the State has a law which if enforced would give relief. The federal remedy is supplementary to the state remedy and the latter need not be first sought and refused before the federal one is invoked.

Id. at 183.

The enactment of TRCA was necessary because state remedies are "limited in scope and inconsistent to such an extent that they serve as a meaningless substitute for Federal remedies." S. Rep. No. 102-286, at 6 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3092. *See Alexander v. Gardener – Denver Co.*, 415 U.S. 36, 48-49 (1974) ("Moreover, the legislative history of Title VII manifests a congressional intent to allow an individual to pursue independently his rights in above Title VII and other applicable state and federal statutes. The clear inference is that Title VII was designed to supplement, rather than supplant, existing laws and institutions relating to employment discrimination.") (footnote omitted); and *Zinermon v. Burch*, 494 U.S. 113, 124 (1990) ("[O]verlapping state remedies are generally irrelevant to the question of the existence of a cause of action under § 1983.").

Florida Prepaid also overstates the availability of a state remedy. Although conceding that the state's liability under Florida law is limited to $200,000 per instance, Brief at 19, the fact is that CSB would be limited to no more than $100,000. Fla. Stat. § 768.28(5) ("Neither the state nor its agencies or subdivision shall be liable to pay a claim or a judgement by any one person which exceeds the sum of $100,000. . . ."). Moreover, despite the claims made by Florida Prepaid, the statute waiving immunity for suits in state courts has been narrowly construed. *County of Brevard v. Miorelli Engineering, Inc.*, 677 So. 2d 32, 34 (1996) ("The legislature

has waived sovereign immunity in tort for personal injury, wrongful death, and injury or loss of property. . . . Fraud in the inducement causing only economic loss does not fit within any of those categories of injury or loss enumerated in this statute.") Therefore, the availability of damages of no more than $100,000, an amount which in itself is facially inadequate, may well not be available for economic loss arising from a claim of false advertising.

Florida Prepaid also contends that CSB might be able to obtain relief from a "reverse condemnation action against the State for just compensation." Brief at 19. First, such actions are premised upon a "takings" theory that CSB has not invoked. The jurisprudence of "takings" is not a fruitful way of examining the deprivation Florida Prepaid has caused by its violation of the unfair competition provisions of § 43(a) of the Lanham Act.[6] CSB does not contend that its entire property, *i.e.*, its "business" has been "taken." Rather, Florida Prepaid's false advertising has served to deprive CSB of only some portion of its customers, earnings and revenues.[7]

---

[6] There has been a recognition by this Court that there is a distinction between "deprivation" as the term is used in the Fourteenth Amendment and "taking" as that term is used in the Fifth Amendment. *Eastern Enterprises v. Apfel*, 118 S. Ct. 2131, 2154-60, 2161-63 (1998) (Kennedy, J. concurring in the judgment and dissenting in part, and Breyer, J., dissenting). The Court, in a plurality decision, found that a taking had taken place in violation of the Fifth Amendment, even though not presenting the normal case "in which the government directly appropriates private property for its own use." *Id.* at 2146. It is significant, however, that in *Eastern Enterprises* the fact that the challenged congressional regulation had an "economic impact" was a pertinent part of the Court's constitutional analysis. *Id.* at 2149.

[7] The Court's attention is also invited to the brief of *Amicus Curiae* Association of American Railroads in No. 98-531. Pages 13-16 of that brief discuss the exceedingly limited nature of the potential remedies available from a claim of wrongdoing by a state agency. *See also* the Appendix to that brief setting forth selected statutory provisions from a number of states demonstrating the limited availability of state relief.

The most fundamental flaw in Florida Prepaid's argument is that it is premised upon the proposition that Congress' § 5 power is limited to addressing the constitutional wrongs that are required to maintain § 1983 cases. It is clear from this Court's decisions, however, that pursuant to its § 5 powers, Congress can reach actions by the States which, in themselves, are not unconstitutional, a vital distinction between congressional abrogation of the States' immunity under § 5 and the scope of § 1983.

Florida Prepaid's argument is directly contrary to this Court's decision in *Ex parte Virginia*, 100 U.S. at 345 ("It is the power of Congress which has been enlarged. Congress is authorized to *enforce* the prohibitions by appropriate legislation".). *See also Katzenbach v. Morgan*, 384 U.S. at 648. ("A construction of § 5 that would require a judicial determination that the enforcement of the state law . . . violated the Amendment, as a condition of sustaining the congressional enactment, would depreciate both congressional resourcefulness and congressional responsibility for implementing the Amendment.") (footnote omitted).

Thus, *Parratt v. Taylor*, 451 U.S. 527 (1981), *overruled in part on other grounds by Daniels v. Williams*, 474 U.S. 327 (1984), is inapposite. Additionally, *Parratt* involved an alleged loss of property resulting from "a random and unauthorized act by a state employee." *Id.* at 541. This Court's decision in *Hudson v. Palmer*, 468 U.S. 517 (1984), dealing with an unauthorized deprivation of property, is also inapposite. CSB's claim does not involve either random or unauthorized behavior.

Florida Prepaid also attempts to rely upon *City of Boerne* to support the proposition that a separate federal remedy as provided by TRCA is unconstitutional because of the

contention that "there is no legislative . . . record" to support the adoption of a separate federal remedy. Brief at 21. This Court, however, recognizes that it is for Congress to determine the legislation needed to enforce the guarantees of the Fourteenth Amendment "and its conclusions are entitled to much deference." *City of Boerne*, 521 U.S. at 536. Deference does not depend upon the extent to which Congress has compiled a record to support its decision:

> Judicial deference, in most cases, is based not on the state of the legislative record Congress compiles, but 'on due regard for the decision of the body constitutionally appointed to decide' *Oregon v. Mitchell*, 400 U.S. at 207 (opinion of Harlan, J.). As a general matter, it is for Congress to determine the method by which it will reach a decision.

Id. at 531-32.

IV. FLORIDA PREPAID'S INVITATION TO OVERRULE THE *PARDEN* DOCTRINE SHOULD BE DECLINED.

Florida Prepaid argues that this Court should overrule *Parden v. Terminal Ry. Of Ala. State Docks Dep't*, 377 U.S. 194 (1964). Brief at 23-35. The invitation should be declined. Florida Prepaid argues that "the *Parden* waiver doctrine is based on a premise-- the existence of congressional authority under the Commerce Clause . . . rejected in the *Seminole Tribe*." Brief at 35.

The *Parden* waiver doctrine, however, embodies a basis for finding federal court jurisdiction over the States that was characterized in *Seminole Tribe* as "unremarkable and completely unrelated. . . ." *Id.* 517 U.S. at 65. That alternative basis for jurisdiction is vitally important now that the States, principally through their university arms and entities such as

Florida Prepaid, have become engaged in widespread commerce affecting many fields.

Florida Prepaid has itself given a reason why the *Parden* doctrine is important and should not be repudiated. In arguing against the position of *Amicus Curiae* International Trademark Association that the application of the *Parden* doctrine offers a means of leveling the playing field, Florida Prepaid contends that the Eleventh Amendment is designed precisely to avoid a "level playing field." Brief at 34 n.15. Clearly, however, this Court's decision in *Seminole Tribe*, concerning the overriding authority of the Eleventh Amendment, does not support such a sweeping statement.

There is simply no policy reason for permitting the States to enter into commercial areas, subject to congressional regulation, that are not necessary to carry out their functions as States, in competition with private enterprise, without allowing Congress to hold them to the same standard of conduct applicable to private sector participants.[8]

It is vitally important that this Court not adopt a constitutional interpretation that leaves Congress unable to address lawless behavior by the States in the commercial arena. Just as this Court has not hesitated to find that there are limits to the constitutional authority of both the federal and state governments to regulate, this Court should not hesitate to find

---

[8] *Amicus Curiae*, Regents of the University of California, maintains that this Court has rejected the distinction between governmental and nongovernmental functions that is used in applying the *Parden* doctrine relying upon *Garcia v. San Antonio Metro. Transit Auth.*, 469 U.S. 528, 546-47 (1985). Brief at 13-17. In *Garcia*, the Court, overruling *National League of Cities v. Usery*, 426 U.S. 833 (1976), found that the Commerce Clause empowered Congress to impose Fair Labor Standards Act provisions against the States without regard to whether a particular activity was a traditional governmental function. The *Usery* test, however, is not identical to the *Parden* test, and in any event, application of *Parden* permits federal court jurisdiction in a manner that does not intrude upon the States' core functions.

that there are limits to the authority of the States to compete with private enterprise without being subject to the same rules and regulations that govern private enterprise.

Florida Prepaid's argument that its activities are not subject to the *Parden* doctrine because it is performing a core governmental function of promoting education is unpersuasive. Brief at 35-40. The fact is that Florida Prepaid is offering a private investment program, *i.e.*, a means to permit private savings by private individuals to meet private responsibilities. The program does not limit purchases to Florida residents, nor do the funds have to be used at postsecondary schools in Florida. CSB Opening Brief at 35.

Florida Prepaid attempts to buttress its position that it is not merely involved in assisting private savings by noting that it has labeled its products as "advance payment contracts" and that in some circumstances termination of the contracts will result only in the refund of the amount paid into the plan, without interest. Brief at 38. Florida Prepaid overstates the draconian nature of its contract. Among other things, there are circumstances in which interest is paid upon termination, and, the holder of the contract is free to change the designated beneficiary to avoid a forfeiture of the value of the contract. Florida Prepaid Master Covenant, §§ 5.03, 6.01. In any event, the fact that Florida Prepaid may offer an investment vehicle that is a poor bargain does not change the fact that it is nothing more than a private savings program designed to meet private obligations. The quality of the product offered by Florida Prepaid is not the issue; it is the nature of the product.

Florida Prepaid is simply another participant in the predominantly private function of assisting private parties in accumulating sufficient funds to pay for the costs of college--through insurance programs, mutual funds, bank savings, or any other possible approach to the accumulation of funds.

Florida Prepaid's private savings program has no legitimate claim to be deemed a core governmental function.[9]

Finally, Florida Prepaid attempts to escape the *Parden* Doctrine by contending that the TRCA failed to give the notice required by this Court's decision in *Welch v. Texas Dep't of Highways & Pub. Transp.*, 483 U.S. 468 (1987). Brief at 41-44. By Congress' enactment of the TRCA, however, Florida and the States were put on clear notice that, henceforth, those state activities that compete with the private sector would be subject to the Lanham Act. As found by the court of appeals, the TRCA "declares that if a state or its instrumentality chooses to engage in a proprietary activity that potentially falls under the Lanham Act, it can be held liable in federal court for violations of that Act." Pet. App. at 21a. That is all the notice that is required by *Welch*.

Florida Prepaid does not, of course, argue that it was not in fact fully aware that it faced Lanham Act liability after the 1992 enactment of the TRCA. Nevertheless, Florida Prepaid argues that the requisite *Parden* notice would require that the states be informed that immunity would be waived if they engage, as here pertinent, in college savings programs. Brief at 41. Florida Prepaid's arguments go well beyond this Court's prior decisions in *Welch v. Texas Dep't of Highways & Pub. Transp.*, 483 U.S. 468 (1987) and *Employees of the Dep't of Pub. Health & Welfare v. Dep't of Pub. Health & Welfare*, 411 U.S. 279 (1973). Those cases considered statutes of general application, *i.e.*, the Jones Act in *Welch*, and the Fair Labor Standards Act

---

[9] Florida Prepaid argues that, by enacting the Small Business Job Protection Act of 1996, Pub. L No. 104-188, 110 Stat. 1755 (1996), extending tax-exempt status to state prepaid tuition programs, Congress has recognized those programs as "an appropriate function of state government." Brief at 39. To the contrary, the Act was necessary only because such plans do not represent core governmental functions. The Internal Revenue Code had long provided a tax exemption for state income derived from the "exercise of any essential government function." I.R.C. § 115 (1986).

in *Employees*. Despite that, the Court did not suggest that the States had not been given the requisite *Parden* notice because of a failure to identify specific state activities that would be covered.

Congress cannot reasonably be expected to identify each specific proprietary activity of the States when invoking the *Parden* doctrine. Instead, if Congress states its intentions with the requisite clarity, it need only notify the States that henceforth they must either comply with the law or cease conducting the proprietary activities.

CONCLUSION

The judgment of the court of appeals should be reversed and the case remanded for further proceedings.

April 12, 1999 Respectfully submitted,

ARNOLD B. CALMANN
SAIBER SCHLESINGER SATZ
& GOLDSTEIN, LLC
One Gateway Center
Newark, New Jersey 07102-5311
(973) 622-3333

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037
(202) 457-6000